Insurance Institute
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SBT Proposal Picks Winners and Losers

22,000 businesses in Michigan will experience a significant tax increase under the plan.

The Governor's proposal to revise the Single Business Tax (SBT) in this state would increase taxes on 22,000 businesses by $1.1 billion. Taxes on insurance companies would more than double under the plan, according to a study of its members by the Insurance Institute of Michigan (IIM).

Senate Bills 295 and 296 and House Bills 4476 and 4477 would:

- Reduce the Single Business Tax rate for corporations from 1.9% to 1.2%, but triples the profits component of the tax base for those same corporations;
- Create a manufacturing personal property tax credit - manufacturers would get a credit for 35% of personal property taxes paid on property used for manufacturing or research and development purposes;
- Create a Research and Development credit - taxpayers would receive a credit for 1.2% of compensation paid to employees engaged in research and development; and
- Impose a 2 percent premium tax on insurance companies and eliminate all credits for contributions to state residual funds.

This proposal will negatively impact many small businesses in this state. Some small businesses, service sector and financial services businesses will face a staggering increase in their tax burden – putting the jobs they provide at risk.

In fact, the proposal will increase costs for all businesses as well as consumers. Raising taxes paid by insurance companies in Michigan will result in higher home and auto premiums paid by Michigan's consumers as insurance companies build these additional costs into their rates. Michigan businesses will similarly experience increases in commercial coverages, including workers' compensation, commercial auto and liability coverages.

The insurance industry already pays more than its fair share of corporate taxes in Michigan. In fiscal year 2004, insurance companies operating in Michigan paid 11 percent of the total business tax collected by the state, while representing 1.5 percent of the labor force. Department of Treasury officials recently acknowledged that insurers operating in Michigan already pay more in SBT than any other industry and will pay over 23 percent under the Governor's proposed tax plan.

The insurance industry in Michigan has been a stable job provider in Michigan. Although the tax shift has been touted as an effort to grow jobs in Michigan, this massive tax increase will have a negative impact on insurance industry employment. Currently, insurance companies directly employ about 39,000 workers, with another 23,000 people employed as agents and brokers in this state.

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Boosting Michigan insurance taxes will also result in the imposition of retaliatory taxes on Michigan-based insurance products sold in other states. A retaliatory tax results when insurance companies pay premium taxes at their home state rate in those states where the premium tax rates are lower. If the premium tax is increased to 2 percent in Michigan, insurance companies that are headquartered here in Michigan will end up paying higher taxes in 13 other states.

Other states surrounding Michigan are trying to retain their insurance companies by lowering the tax rate, not increasing it. Both Ohio and Indiana have significantly reduced their insurance taxes over the last several years.

The majority of Michigan residents don't support the proposal. A poll released by the Alexandria, VA research firm TargetPoint Consulting found that a large majority of Michigan voters (60 percent to 33 percent) disapprove of the proposed shifting of the Single Business Tax.

Good Credit Discounts Allowed Under State Law

Insurance companies can continue to offer lower rates to auto and home policyholders who maintain good credit under a recent ruling by Barry County Circuit Court Judge James Fisher. Judge Fisher ruled that an administrative rule promulgated by the Michigan Office of Financial and Insurance Services (OFIS) Commissioner Linda Watters to ban insurance credit discounts is illegal.

About two-thirds of the state's policyholders receive a credit-based insurance discount for maintaining good credit.

A lawsuit to stop the rule from going into effect was filed on March 25 by the Insurance Institute of Michigan, several individual insurance companies and a policyholder.

The judge found that the rule is illegal because 1) the blanket prohibition on the use of insurance scores is contrary to the Insurance Code because there is no question that there is a high correlation between insurance scores and expected risk and loss; and 2) because it attempts to rewrite the Insurance Code through administrative rulemaking.

Credit-based insurance scoring discounts help allocate the cost of coverage based on a policyholder's claim potential. A 2004 study prepared by the Texas Department of Insurance on credit-based insurance scoring found a direct correlation between credit histories and insurance losses.

In Michigan, credit-based insurance scoring is used only to provide discounts for customers for their insurance. Credit-based insurance scores are generally not used in this state to determine whether or not a person can be insured by the company or apply a surcharge.

Credit scores are different from credit reports or scores used by lenders. Insurance companies develop insurance scores from credit history contained in credit bureau reports and use the information when making rating decisions. An insurance score provides a numeric assessment of an individual's credit risk. It reflects credit payment patterns, outstanding debt, length of credit history, types of credit and number of new applications for credit. Insurance companies consider only those items from credit reports that are relevant to insurance loss potential. Unlike a lender, an insurance company is not assessing a customer's income and debt, they are evaluating how customers manage their finances and credit granted to them.

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